

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

In re:

SALINE LODGING GROUP, LLC, Case No. 21- 47210-mlo

Chapter 11

Debtor.

Hon. Maria L. Oxholm

/

**UNITED STATES TRUSTEE'S MOTION
TO DISMISS CHAPTER 11 CASE**

ANDREW R. VARA, United States Trustee, for his Motion to Dismiss

Chapter 11 Case, states:

Preliminary Statement

The United States Trustee seeks dismissal of this case because the Debtor has been in bankruptcy since September 2021 and has made no progress toward rehabilitation *or* liquidation. The Debtor, a partially built hotel, is in a state of disrepair and has recently been cited by the City of Saline for structural code violations. The efforts to sell this building have been stalled, causing significant delay and prejudice to creditors. The proposed sales have included a failed bid procedure process, and self-dealing by the Debtor's members. The Debtor has no current means to pay administrative expenses, and there is no equity in the property that would provide a dividend to unsecured creditors. The Debtor's estate

continues to deteriorate, with no likelihood of rehabilitation, and is grossly mismanaged. Cause exists to dismiss this case. Consequently, this case should be dismissed under 11 U.S.C. §1112(b)(4)(A) and (B).

Background and Status of Case

1. This case was originally filed on September 7, 2021 as a subchapter V chapter 11 case.

2. Eventually, after the principal secured creditor filed an objection to the Debtor's status as a subchapter V debtor, the Court ordered that the Debtor would not be treated as a subchapter V debtor (Docket 57.)

3. Although the Debtor never corrected the petition in this case, the Debtor withdrew the plan it filed as a subchapter V debtor (Docket 63), but only after the United States Trustee filed a Motion to Convert (Docket 58.)

4. The United States Trustee withdrew the Motion to Convert at the hearing held by the Court on January 20, 2022. At that time, the Court set a deadline of February 17, 2022 for the Debtor to file an Amended Plan.

5. The Debtor filed an Amended Plan and Disclosure Statement on February 17, 2022.

6. The Court set confirmation for March 31, 2022. Confirmation was adjourned to April 7, 2022.

7. On April 6, 2022, the Debtor filed a Report on Confirmation (the “Report”) (Docket 137) stating that the Debtor would not be going forward the next day at the confirmation hearing. The Report also stated the Debtor would seek to file a liquidating plan and a motion for sale under 11 U.S.C. § 363 no later than April 21, 2022.

8. On April 21, 2022 a third amended Combined Plan and Disclosure Statement was filed (the “Liquidating Plan”) (Docket 151), as well as a Motion for Order Approving Asset Sale Under 11 U.S.C. § 363(b) and Fed. R. Bankr. P. 6004 (the “Sale Motion”) (Docket 150.)

9. The Sale Motion included bid procedures and a stalking horse bid.

10. The deadline to file objections to the Sale Motion was extended to June 2, 2022 by agreement of the parties and the Court’s Order (Docket 160 and 161.)

11. On May 18, 2022, parties were informed that the stalking horse bidder had “backed out” of the auction process.

12. No replacement stalking horse has been identified as of the time of this Motion.

13. The Debtor’s property consists of a partially finished hotel in Saline, Michigan (the “Property”) and some electrical and lighting equipment that was delivered to the Debtor’s property in late April.

14. According to the schedules and proofs of claim filed in the case, the taxes and secured debt exceed the apparent value of the property by at least \$1 million, if not more.

15. There is no likelihood that unsecured creditors will receive a distribution in this case.

16. The case has now been pending almost ten months.

Law

17. Sections 1112(b)(1) and (b)(4)(A) and (b)(4)(B) of the Bankruptcy Code state in pertinent part:

(b)(1) Except as provided in paragraph (2) and subsection (c), on request of a party in interest, and after notice and a hearing, the court shall convert a case under this chapter to a case under chapter 7 or dismiss a case under this chapter, whichever is in the best interests of creditors and the estate, for cause unless the court determines that the appointment under section 1104(a) of a trustee or an examiner is in the best interests of creditors and the estate...

(4) For purposes of this subsection, the term “cause” includes—

- (A) substantial or continuing loss to or diminution of the estate and the absence of a reasonable likelihood of rehabilitation;
- (B) gross mismanagement of the estate[;]...

Continuing Loss to the Estate and Absence of Reasonable Likelihood of Rehabilitation

18. No work has been done on the Property to further completion for over two years, and nothing has been done to the Property during the pendency of this case.

19. The Property is deteriorating, causing continuing loss and diminution to the estate.

20. Real property taxes continue to accrue on the Property.

21. The City of Saline recently issued a Violation Letter to the Debtor concerning the condition of the Property and items that must be addressed in the next month. The Violation Letter is attached to this Motion as Exhibit 1.

22. The Debtor has no operations, no income, and no apparent ability to maintain the Property.

23. In addition, the Debtor has declared its intention to liquidate and will cease operations following any liquidation of the Property. Therefore, there is an absence of reasonable likelihood of rehabilitation.

24. The Property is not worth the value of the liens against it and there is no likelihood that unsecured creditors will receive anything in this case.

25. The Debtor has no means to pay accrued administrative expenses.

The case is administratively insolvent. The Debtor is not operating and has no income.

Gross Mismanagement of the Estate

26. The Debtor has grossly mismanaged the estate. Since the case has been in bankruptcy, the Debtor has tried to steer the sale of the Property toward potential purchasers who are willing to enter an arrangement such as a partnership or joint venture with some of the Debtor's members. These efforts are self-dealing and constitute gross mismanagement.

27. The Debtor's Sale Motion (Docket 150) included provisions for an auction with a stalking horse. The stalking horse withdrew from that process recently.

28. The Debtor has not offered a replacement stalking horse.

29. The Debtor has not exposed the Property to the market.

30. There are other reasons that the Debtor's Sale Motion cannot be approved.

31. The Debtor has wasted over nine months in this bankruptcy trying to salvage some interest for its members instead of advertising the property and taking necessary steps to maximize the value of the Property.

32. This delay has been prejudicial to creditors.

33. For these reasons, cause exists under 11 U.S.C. § 1112(b)(4)(A) and (B) to dismiss this case.

WHEREFORE, the United States Trustee respectfully requests that the Court dismiss this case, and for such other relief as may be appropriate in the circumstances of this case.

Respectfully submitted,

**ANDREW R. VARA
UNITED STATES TRUSTEE
Regions 3 and 9**

By: /s/ Leslie Berg
Trial Attorney
Office of the U.S. Trustee
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Dated: June 1, 2022

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

In re:

SALINE LODGING GROUP, LLC, Case No. 21- 47210-mlo

Chapter 11

Debtor.

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/

ORDER DISMISSING CASE

This matter came before the court on the Motion of the U.S. Trustee for dismissal of this case under 11 U.S.C. §§ 1112(b)(4)(A) and (b)(4)(B). For the reasons stated on the record, the Court finds cause to dismiss this case.

It is therefore ORDERED that this case is DISMISSED.

UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

In re:

Case No. 21-47210 - mlo

Saline Lodging Group, LLC,

Chapter 7

Debtor.

Hon. Maria L. Oxholm

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NOTICE OF MOTION TO DISMISS CASE

The United States Trustee has filed papers with the court to dismiss this case.

Your rights may be affected. You should read these papers carefully and discuss them with your attorney, if you have one in this bankruptcy case. (If you do not have an attorney, you may wish to consult one.).

If you do not want the court to dismiss the case, or if you want the court to consider your views on the motion, **within 21 days**, you or your attorney must:

1. File with the court a written response or an answer, explaining your position at:¹

U.S. Bankruptcy Court
211 West Fort Street
Detroit, Michigan 48226

If you mail your response to the court for filing, you must mail it early enough so the court will receive it on or before the date stated above.

You must also mail a copy to:

Leslie K. Berg
Office of the United States Trustee
211 West Fort Street, Suite 700
Detroit, MI 48226

2. If a response or answer is timely filed and served, the clerk will schedule a hearing on the motion and you will be served with a notice of the date, time and location of the hearing.

If you or your attorney do not take these steps, the court may decide that you do not oppose the relief sought in the motion and may enter an order granting that relief.

¹ Response or answer must comply with F.R.Civ.P. 8(b), (c) and (e).

ANDREW R. VARA
UNITED STATES TRUSTEE
Regions 3 and 9

By /s/ Leslie K. Berg
Trial Attorney
Office of the U.S. Trustee
211 West Fort St - Suite 700
Detroit, Michigan 48226
(313) 226-7999
Leslie.K.Berg@usdoj.gov

Dated: June 1, 2022

EXHIBIT 1



The City of *Saline*

Community Development | 100 N. Harris St. Saline, Michigan 48176

Phone: (734) 429-8296 | Fax: (734) 429-5280

www.cityofsaline.org

VIOLATION NOTICE

May 20th, 2022

SALINE LODGING GROUP LLC

1250 E. MICHIGAN AVE.

Enforcement Number: EENF22-0181

Inspection Type: INTERIOR REVIEW AND FOLLOW UP

Result: AMMENDED VIOLATION LETTER

Greetings:

Thank you for allowing us the opportunity to review the interior of the building. While the structure appears to be weather tight, there are some concerns. Please consider this letter to replace the previous violation letter.

304.2 Exterior surfaces, including but not limited to, doors, door and window frames, cornices, porches, trim, balconies, decks, and fences, shall be maintained in good condition. Exterior wood surfaces, other than decay-resistant woods, shall be protected from the elements and decay by painting or other protective covering or treatment. Peeling, flaking and chipped paint shall be eliminated, and surfaces repainted. Siding and masonry joints, as well as those between the building envelope and the perimeter of windows, doors, and skylights, shall be maintained weather resistant and watertight. Metal surfaces subject to rust or corrosion shall be coated to inhibit such rust and corrosion, and surfaces with rust or corrosion shall be stabilized and coated to inhibit future rust and corrosion. Oxidation stains shall be removed from exterior surfaces. Surfaces designed for stabilization by oxidation are exempt from this requirement.

INSPECTOR COMMENTS: The exterior of a structure shall be maintained in good repair, structurally sound and sanitary so as not to pose a threat to the public health, safety or welfare

1. Two boarded window bays with no windows on the second and third floors, left of the main entry.
Exposed wood boards/paneling must receive a waterproofing treatment such as exterior paint if windows will not be installed.



Boarded Windows and Building Wrap



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2. All exposed exterior wood panels must be properly sided to be watertight. All exposed exterior Tyvek building wrap must be repaired and then properly sided. Building wrap is not an approved exterior weather barrier



Exposed wood and damaged building wrap

3. All openings to the exterior must be properly sealed. HVAC ports under windows must be properly sealed to be watertight.



Popped foam board HVAC closures on 3rd floor

4. Broken windows must be replaced or boarded secure to prevent unauthorized entry and weather infiltration.



Broken First Floor Window



Broken First Floor Window



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Broken Second Floor Window

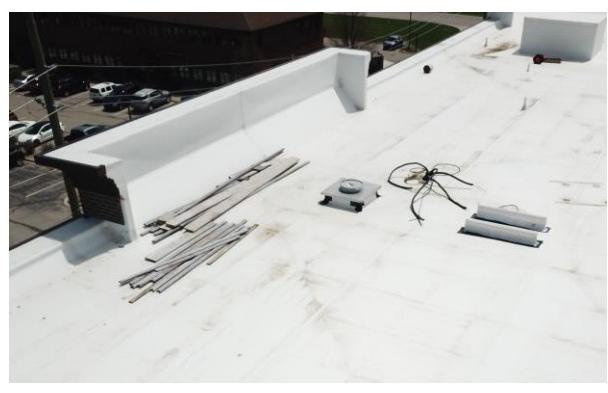


Broken Third Floor Window

302.1 Sanitation. *Exterior property and premises* shall be maintained in a clean, safe and sanitary condition. The *occupant* shall keep that part of the *exterior property* that such *occupant* occupies or controls in a clean and sanitary condition.

INSPECTOR COMMENTS:

5. ROOF TOP- Construction tools, materials and loose mechanical items must be removed from the roof.



Cones, construction materials and machines on roof



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6. Construction materials stored in the parking lot and on exterior of the building must be removed from the site or stored indoors.



Construction materials in the parking lot

As you review this, please let me know if you have any questions.

Please provide a plan for performing these repairs and maintenance items within 30 days of this notice (Monday, June 20th).

Thank you.

Barry Wauldrone, MAAO
Appraiser / Code Enforcement Officer
City of Saline
Office: (734) 429-8296 x2225
Cell: (734) 351-6061
Bwauldrone@cityofsaline.org